

Message Text

SECRET

PAGE 01 SEOUL 05078 01 OF 02 171322Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----171324Z 113325 /43

O 171007Z JUN 77
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC IMMEDIATE 4584

S E C R E T SECTION 1 OF 2 SEOUL 5078

STADIS//////////

EXDIS

FOR EA ONLY

EO 11652: GDS
TAGS: MARR, ECON KS US
SUBJ: KOREAN ABILITY TO SUSTAIN ADDITIONAL MILITARY EXPENDITURES

SUMMARY. THIS IS THE SECOND MESSAGE OF THE ERIES CONCERNING POSSIBLE U.S. COMPENSATORY MEASURES. BASED ON INCOMPLETE DATA AS TO COSTS BUT ASSUMING THAT THE LIKELY LEVEL OF EXPENDITURE WILL BE LIMITED, WE CONCLUDE THAT THE KOREAN ECONOMY WILL BE ABLE TO BEAR A MAJOR PORTION OF THE POTENTIAL ADDITIONAL COSTS INVOLVED IN A HEIGHTENED MILITARY EFFORT AS A CONSEQUENCE OF U.S. TROOP WITHDRAWAL. SHORT-FALLS MIGHT BE ACCOMMODATED BY OTHER ACTIONS END SUMMARY.

1. THE BURDEN NEEDS TO BE ESTIMATED IN TWO RESPECTS: (A) IN TERMS OF COSTS ON THE DOMESTIC ECONOMY AND (B) IN TERMS OF FOREIGN EXCHANGE COSTS. AT THE TIME THE ANALYSIS OF THE ORIGINAL FIP WAS MADE IN 1975, THE KOREAN ECONOMY WAS IN A TROUGH AND ESTIMATES SUGGESTED THAT IT WOULD HAVE CONSIDERABLE DIFFICULTY SUSTAINING THE FOREIGN EXCHANGE COSTS OF THE FIP. THE ECONOMY HAS SINCE RECOVERED SIGNIFICANTLY.

SECRET

SECRET

PAGE 02 SEOUL 05078 01 OF 02 171322Z

2. WE ASSUME THAT THE FIP COSTS (\$10.6) BILLION TOTAL-- \$3.2 BILLION FX ARE INCLUDED IN THE FOURTH FIVE YEAR PLAN PROJECTIONS. THIS ASSUMPTION MAY NOT BE EXACTLY CORRECT, BUT IN THE ABSENCE OF A COMPLETE SET OF DATA, WE ARE UNABLE TO HANDLE THE PROBLEM ANY OTHER WAY.

3. WE DO KNOW THAT THE ECONOMY IS PLANNED TO GROW ABOUT NINE PERCENT A YEAR. THE QUESTION IS WHETHER THE ECONOMY COULD HANDLE DOMESTIC CLAIM ON RESOURCES ADDITIONAL TO THE FIP. IT IS OUR BELIEF THAT WITHIN A BROAD RANGE, GIVEN THE LEVEL OF UNEMPLOYMENT AND UNDEREMPLOYMENT, THE ECONOMY COULD HANDLE ANYTHING LIKELY TO OCCUR. THERE MAY BE SOME ADVERSE CONSEQUENCES SUCH AS A HIGHER RATE OF INFLATION, BUT WE STILL BELIEVE THE ECONOMY CAN SUSTAIN IT.

4. THE 1976 REVISION OF THE FOURTH FIVE YEAR PLAN PRODUCED A FAVORABLE SET OF CHANGES IN THE FOREIGN EXCHANGE PICTURE. IN THE PERIOD 1977-81, THE PLAN DOCUMENT SHOWS A CURRENT ACCOUNT SURPLUS OF \$1.2 BILLION, A \$5.1 BILLION INCREASE IN NET LONG-TERM BORROWING AND A BUILDUP OF FOREIGN EXCHANGE RESERVES OF \$3.5 BILLION.

5. THUS THE FOURTH FIVE YEAR PLAN ASSUMES THAT VIRTUALLY ALL OF THE SHORT-TERM CAPITAL IS RETIRED AND LONG-TERM IS ACQUIRED. WE SEE NO REASON WHY IT IS NECESSARY TO ELIMINATE THE \$2.8 BILLION IN SHORT-TERM CAPITAL.

6. THE PLAN FIGURES MOREOVER DO NOT TAKE ACCOUNT OF THE FACT THAT FOREIGN EXCHANGE RESERVES ACTUALLY INCREASED \$600 MILLION MORE THAN THE PLAN ASSUMED IN 1976 AND THAT THERE WILL PROBABLY BE A TRADE SURPLUS OF \$250 MILLION IN 1977 INSTEAD OF A \$630 DEFICIT. THESE TWO SHIFTS WILL ADD ALMOST \$900 MILLION TO THE CURRENT ACCOUNT SURPLUS FOR THE FIVE-YEAR PERIOD AND MAKE IT UNNECESSARY TO INCREASE RESERVES DURING THE PERIOD BY \$600 MILLION. AS A RESULT,

SECRET

SECRET

PAGE 03 SEOUL 05078 01 OF 02 171322Z

TO ACHIEVE WHAT THE FOURTH FIVE YEAR PLAN SET OUT WILL REQUIRE \$1.5 BILLION LESS THAN HAD EARLIER BEEN ESTIMATED.

7. IT IS OUR CONCLUSION, THEREFORE, THAT KOREA PROBABLY COULD DEVOTE AN ADDITIONAL \$4.3 BILLION (BY NOT ELIMINATING SHORT-TERM CAPITAL (\$2.8 BILLION) PLUS RECENT CHANGE IN FX POSITION (\$1.5 BILLION) TO MILITARY PURCHASES ABROAD, WITHOUT ALTERING THE DEBT-SERVICE RATION, AND STILL ACHIEVE THE PLAN'S GOALS INCLUDING A SUBSTANTIAL RISE IN FOREIGN EXCHANGE RESERVES EQUAL TO 25 PERCENT OF THE REQUIRED PAYMENTS.

SECRET

NNN

SECRET

PAGE 01 SEOUL 05078 02 OF 02 171327Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----171329Z 113384 /43
O 171007Z JUN 77
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC IMMEDIATE 4585

S E C R E T SECTION 2 OF 2 SEOUL 5078

STADIS////////////////////////////////

EXDIS

FOR EA ONLY

8. AS WE HAVE INDICATED IN PREVIOUS MESSAGE, IT IS LIKELY THAT THE ROK'S ESTIMATE OF REQUIREMENTS MIGHT WELL EXCEED THE PROJECTED FOREIGN EXCHANGE OR DOMESTIC RESOURCE AVAIL- ABILITIES. THE ESTIMATED REQUIREMENTS WHICH CANNOT BE FINANCED BY ROK MIGHT BE ACCOMMODATED BY FOLLOWING ACTIONS:

A. U.S. ASSISTANCE (GRANT MATERIEL AND FMS CREDITS) ALONG LINES SET FORTH SEPTEL.

B. POSTPONEMENT OF CERTAIN PROCUREMENTS, PARTICULARLY IN THOSE AREAS IN WHICH U.S. PRESENCE WILL REMAIN BEYOD 1982.

C. IMAGINATIVE U.S. PROJECTS WHICH WOULD PROVIDE ROK WITH NECESSARY HARDWARE AT MINIMAL COSTS (E.G. BAIL OF F-4E SQUADRON IN US. AIR FORCE COMPONENT N KOREA CAN BE QUIPPED WITH F-16/16).

D. EASING OF U.S. POLICY TO PERMIT ROKG TO ACQUIRE THIRD COUNTRY WEAPON SYSTEMS, THEREBY PROVIDING ROK WITH ADDITIONAL SOURCE OF FINANCING.

SECRET

SECRET

PAGE 02 SEOUL 05078 02 OF 02 171327Z

9. TWO CAVEATS TO THIS MESSAGE NEED TO BE MADE. THE FIRST RELATES TO THE ATTITUDE OF THE BANKERS AND THE SECOND TO THE POSSIBLE SHORTFALL IN THE PROJECTION MADE IN THE FOURTH FIVE YEAR PLAN. THE TWO ARE INTER-RELATED SINCE FAILURE TO ACHIEVE THE FOURTH FIVE YEAR PLAN TARGETS WILL OBVIOUSLY AFFECT BANKERS' ATTITUDES.

10 BANKERS' ATTITUDES ARE EXTREMELY IMPORTANT SINCE

KOREA HAS BORROWED SOMEWHERE BETWEEN FIVE AND SEVEN BILLION THROUGH THE INTERNATIONAL BANKING SYSTEM. MUCH OF THIS MONEY IS NOT GOVERNMENT GUARANTEED. SO FAR THE BANKERS HAVE ASKED QUESTIONS ABOUT TROOP WITHDRAWAL BUT HAVE GENERALLY TAKEN A POSITIVE VIEW. HOWEVER, A CHANGE IN THE ASSESSMENT OF THE MILITARY SITUATION WOULD LIKELY HAVE AN ADVERSE EFFECT ON THEIR WILLINGNESS TO LEND. THE RISK WILL SIMPLY BECOME TOO GREAT FOR THEM TO THINK THE RATE OF RETURN IS WORTH IT. A HEIGHTENED MILITARY EFFORT ON THE PART OF THE KOREAN GOVERNMENT WHICH PUTS ITS SO FAR SPECTACULAR ECONOMIC PERFORMANCE IN JEOPARDY WOULD LIKELY HAVE A SIMILAR EFFECT ON BANKER ATTITUDES. THEY WOULD, IN OTHER WORDS, REASSESS THE RISK AND DECIDE THAT THEY WERE NO LONGER WILLING TO LEND. U.S. ASSISTANCE PACKAGE WILL ALSO BE IMPORTANT PSYCHOLOGICALLY TO BANKERS' CONFIDENCE AND WILLINGNESS TO EXTEND CREDIT.

11. AT THIS POINT WE DO NOT CONSIDER THE TARGETS LAID OUT IN THE FOURTH FIVE YEAR PLAN AS ANYTHING BUT CONSERVATIVE. MADE AT THE DEPTHS OF THE RECESSION IN 1974 AND ONLY SLIGHTLY REVISED BASED ON SUBSEQUENT PERFORMANCE, THEY WERE DESIGNED TO SATISFY THE BANKERS AND THEY HAVE ACHIEVED THAT PURPOSE. WE BELIEVE THAT KOREA IS LIKELY TO DO BETTER THAN THE TARGETS. AT THE SAME TIME, THIS BELIEF MUST BE BASED UPON AN OPTIMISTIC VIEW ABOUT WORLD ECONOMIC CONDITIONS. KOREA'S DEPENDENCE ON EXPORTS IS ABSOLUTE AND ITS ECONOMIC PERFORMANCE WILL ACHIEVE OR EXCEED ITS TARGETS ONLY IF THE DEMAND FOR ITS EXPORTS

SECRET

SECRET

PAGE 03 SEOUL 05078 02 OF 02 171327Z

IS SUFFICIENTLY HIGH. ON THE OTHER HAND, THE ENERGY CRISIS AND OTHER WORLD ECONOMIC PROBLEMS SUGGEST THAT ONE BE CAUTIOUS. JUST AS THE PLAN WAS WRITTEN FROM THE DEPTHS OF THE TROUBLES OF THE BUSINESS CYCLE IN 1974, SO OUR ESTIMATE IN 1977 MAY BE INFLUENCED BY THE PERSPECTIVE FROM THE PEAK OF THE CYCLE.

12. GIVEN THE SOMEWHAT UNCERTAIN NATURE OF THE ECONOMIC PROJECTIONS, THE POSSIBLE MILITARY CONSEQUENCES OF FAILING TO PROVIDE SUFFICIENT ARMS AND THE POSSIBLE POLITICAL READING THE BANKERS MAY GIVE TO A FAILURE TO SUPPORT KOREA'S MILITARY EFFORT, A STRONG CASE CAN BE MADE FOR SOME MEANINGFUL LEVEL OF FMS CREDITS OR SOME SIMILAR FORM OF BALANCE-OF-PAYMENTS SUPPORT WHICH IS DIRECTLY TIED TO THE MILITARY EFFORT.

SNEIDER

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY EXPENDITURES, BURDENSARING, TROOP REDUCTIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Jun-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL05078
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770216-1288
Format: TEL
From: SEOUL
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770645/aaaabndn.tel
Line Count: 220
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: aaf9fb7a-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: ONLY, STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: ONLY, STADIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2111344
Secure: OPEN
Status: NATIVE
Subject: KOREAN ABILITY TO SUSTAIN ADDITIONAL MILITARY EXPENDITURES SUMMARY. THIS IS THE SECOND MESSAGE OF THE ERIES CONCERNING POSSIBLE U.S. COMPENSATORY ME ASURES. BASED ON INCO
TAGS: MARR, ECON, KS, US
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/aaf9fb7a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009